DOCUMENT RESUME

ED 217 548 EA 014 678

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TITLE Rethinking Federal Education Grants and Intergovernmental Relations.
PUB DATE Mar 82
NOTE 28p.

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS *Block Grants; *Categorical Aid; *Delivery Systems; Educational Finance; *Federal Aid; Federal Government; Federal Regulation; Improvement; Policy Formation; Public Policy; School Support
IDENTIFIERS Control Mechanisms (Administrative); General Purpose Grants; Process Improvement

ABSTRACT

Federal aid programs in education and other areas first appeared as categorical grants, permitting resources to be concentrated on specific policy areas and allowing accountability on the part of grantees to be demanded. During recent years block grants and general purpose grants, permitting greater local control, have grown more popular, partly due to decreased administrative difficulties and more efficient delivery services. Since the design characteristics of grants determine the degree to which their effects on national policy matters can be directed, it is more useful to specify these design characteristics when identifying grant types than to depend on the comparatively loose terms, "categorical," "block," and "general purpose." The relevant design characteristics consist of two types of control mechanisms: fiscal controls, including controls on the level of funds, on the distribution of funds, and on the process by which decisions concerning fund usage are made; and programmatic controls, including service standards and controls on planning and program operations. This document concludes with a list of 33 references. (Author/PGD)

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Rethinking Federal Education Grants and Intergovernmental Relations

Mark A. Kutner and Joel D. Sherman

March 1982

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Introduction

Few things in this world are inevitable. The notable exceptions are death, taxes, and debates about American federalism. Although the critical task of balancing the responsibilities among the Federal, State, and local governments predates the American Constitution, the essential questions of American government remain: What should be the role of different levels of government in domestic policy? What is the appropriate balance of authority between the Federal Government and the 50 States? The Reagan Administration's proposal of a "New Federalism" is simply the most recent effort to sort out governmental roles.

While discussions of federalism date back to our early history, the debate has intensified in recent years to a large degree because of the proliferation of Federal grants-in-aid. Between 1965 and 1980 alone, grants to State and local governments increased from $11 billion, or 9.2 percent of the Federal budget, to $91 billion, or 15.8 percent of the budget. In elementary and secondary education, the increases were from about $2.1 billion to $8.7 billion over this same period. (ACIR, 1981, p.5 and ECS, 1981, p.30)

As important as the dollar amount of grants is the fact that many of the programs developed in the last two decades have been designed to carry out Federal purposes rather than assist States and local governments in carrying out their own priorities. Most grants have been categorical in nature and have included extensive regulations controlling program design and administration, finance, and the delivery of services. Layered on top of program requirements are a set of cross-cutting requirement, estimated by the Advisory Commission on Intergovernmental Relations (ACIR) at about 60 in number, that affect all programs and governmental functions. (ACIR, 1980)

In recent years there has been a growing dissatisfaction with the categorical dominance of the Federal grant-in-aid system. In education there are complaints that categorical programs result in a fragmented program structure at the local level, Federal intrusion into State and local activities, and burdensome paperwork and administrative requirements. Most of the discussions about restructuring the system has been focused on the implications of using deregulated categorical, block, or general purpose grants in place of the current array of categorical programs.

This paper is designed to provide a framework for thinking about the future structure of intergovernmental grants that is a level more specific than selecting a categorical, block, or general purpose grant. It begins by examining the evolution of the different grant types and their experiences, including assessing some of the strengths and weaknesses of each type. Then the paper will explore the fiscal and programmatic mechanisms used in the different grant types, and present a framework for restructuring the Federal interogvernmental grant system.

There are, however, two points about how the current system operates which must be considered in any changes in the existing grant system. First, because the Federal Government does not directly deliver services, Federal policies must move down through the intergovernmental system prior to program implementation. There are numerous chances for State and local officials to modify generally ambiguous Federal policies depending on their political cultures and unique conditions. The Federal ability to leverage State and local actions is therefore limited. In education this is

especially true because of the small Federal share of total public education expenditures and strong traditions that States are responsible for elementary and secondary education.

Second, the enforcement orientation of Federal categorical grants does not automatically result in successful implementation. Although compliance is a necessary part of successful implementation, without local commitment and sufficient capacity, it is an inadequate condition to ensure successful implementation.

Grants-In-Aid Mechanisms

The Federal Government has used three types of grant mechanisms to distribute money to State and local governments: categorical grants, block grants, and general purpose grants. Although categorical grants have historically been the most common grant type, the other two mechanisms have recently become a more important part of the intergovernmental aid system. (Break, 1980, p. 124) The definitional distinctions between different types of grant mechanisms are often difficult to discern. Although they are generally distinguished on the degree of authority exercised by the Federal funding agency (the grantor) and the degree of discretion exercised by the recipient agency (the grantee), the distinctions among grant types is not clear cut.

Categorical grants are defined as "grants that are intended for specific program purposes and usually are limited to narrowly defined activies." (ACIR, 1978, p. 3) They are the oldest and most commonly used type of grant. There are two basic types of categorical grants: formula and project. Formula-based grants are generally used to support traditional State and local activities, finance national programs at the State and local levels, and stimulate new activities, including management capacity building. Under formula grants, money is automatically made available to recipients who meet the statutory requirements. Project grants are generally used to expand specific types of activities by stimulating State and local spending. Federal grants to States are mainly formula-based and Federal grants to local governments are generally project grants, meaning that they are distributed through a grants competition involving project proposals and evaluation.

By definition, block grants lie between categorical grants and general

purpose grants on a continuum of strict to minimal Federal control, although the boundary between categorical and block grants is not clearly defined. As noted by the Congressional Research Service, "any grant program may be considered a categorical program, for the difference is only a matter of degree." (CRS, 1977, p.7)

ACIR identifies five basic characteristics of block grants:

1. Federal aid is authorized for a wide range of activities within a broadly defined functional area.

2. Recipients have substantial discretion in identifying problems, designing programs, and allocating resources.

3. Administrative, fiscal reporting, planning, and other Federally-imposed requirements are kept to the minimum necessary to ensure that national goals are being accomplished.

4. Federal aid is distributed on the basis of a statutory formula, which results in narrowing Federal administrators' discretion and providing a sense of fiscal certainty to recipients.

5. Eligibility provisions are statutorily specified and favor general purpose governmental units as recipients and elected officials and administrative generalists as decisionmakers. (ACIR, 1977, p.6)

Block grants may be formed through either the merger of existing categorical programs or through the creation of a new grant program in a functional area. Block and consolidated grants are therefore not necessarily the same. Consolidation of grants into a larger program may simplify program operations but still not create a block grant since it need not increase recipient discretion or reduce the intrusiveness of Federal strings -- two requirements of block grants.

The third component of the intergovernmental grant system consists of general purpose grants. Funds allocated through this type of grant mechanism are "distributed by formula with few or no limits on the purposes for which they may be spent and few if any restrictions on the procedures by which they are spent. (ACIR, 1978, p.3) With the exception of general revenue sharing

and a few other small programs, this grant mechanism is infrequently used by the Federal Government to distribute aid to State and local governments.

Evolution of the Federal Grants-In-Aid Structure

Federal grants-in-aid are not a new phenomenon. Grants to support State or local programs date back to the passage of the Morrill Act in 1862. An important point of departure, however, for Federal programs was the enactment of the Federal income tax in 1913. Its adoption facilitated the expansion of the grant system by providing the Federal Government with the financial resources to expand the domain of its domestic responsibilities. Three years after enactment of the Federal income tax, the first major Federal-State aid program, Federal highways assistance, was initiated.

It was not until the New Deal of the 1930's, when in reaction to the Great Depression, Federal grants-in-aid began to signficantly increase. Between 1933 and 1938, sixteen new Federal aid programs were started, and Federal authority was expanded into such areas of State responsibility as public works, child welfare, and public housing.

Over the next three decades, the grants-in-aid system grew slowly. However, beginning in the 1960's, and extending through the 1970's, there occurred what ACIR calls a "quasi-revolution in intergovernmental relations." (1978, p. 98) Over the past two decades, Federal aid has increased by nearly 900 percent (about 322 percent in real dollars). About 360 Federal programs were created during this period, 240 as part of the Johnson Administration's Great Society. Between 1963 and 1969, Federal assistance increased one-and-a-half

fold, rising from 7.7 percent to 11.0 percent of Federal outlays and from 1.5 to 2.2 percent of Gross National Product (GNP). By 1980, there were about 500 Federal aid programs comprising about 15.8 percent of budget outlays.

The vast majority of programs enacted during this period were categorical grants whose purposes were narrowly defined in terms of nationally determined priorities. They extended Federal involvement into such areas as urban development, environmental protection, law enforcement, and other activities which formerly were exclusively in the State and local domain. Developments in education paralleled those in the larger context of the intergovernmental grant system.

The most signficant Federal initiative in elementary and secondary education was the Elementary and Secondary Education Act (ESEA) of 1965, whose main component, Title I, was a program to provide financial assistance to educationally deprived students from low-income families. Within a few years, ESEA was followed by a series of categorical programs designed to enhance the educational opportunities of children with special needs, e.g., the Bilingual Education Act (Title VII, ESEA) and the Education of All Handicapped Children Act (P.L. 94-142), and programs to promote the improvement of the quality of education. Prior to passage of the Education Consolidation and Improvement Act (ECIA) in 1981, there were over 50 categorical programs in education, each with its own set of narrowly defined purposes and sets of requirements.

During the late 1940's the Hoover Commission proposed the streamlining of the intergovernmental grant system by consolidating categorical programs into a limited number of block grants in order to simplify procedures in

grants administration, enhance opportunities for program coordination, and decentralize fiscal and political authority.

It was almost two decades, however, before block grants were enacted during the Johnson Administration — the Partnership for Health Act in 1966 and the Safe Streets Act in 1968. During the Nixon Administration serious consideration was given to using block grants in place of categorical grants for distributing most Federal domestic aid. The Nixon Administration unsuccessfully proposed consolidating all domestic aid programs into six block grants under the rubric of special revenue sharing. However block grants were enacted in several areas of domestic policy including manpower development through the Comprehensive Employment and Training Act (CETA) in 1973, urban renewal through the Community Development BLock Grant (CDBG) in 1974, and social services through Title XX of the Social Security Act in 1974.

In contrast with other areas of domestic policy, until the Education Consolidation and Improvement Act (ECIA) of 1981, efforts to consolidate or develop block grants in education had been generally unsuccessful. Congress did respond to President Nixon's threatened veto of the Education Amendments in 1974 with a consolidation of several small programs into two programs under the new Title IV of the Elementary and Secondary Education Act. Part B of Title IV, Library and Instructional Services, consolidated the school library program (Title II, ESEA), the equipment program (Title III, National Defense Education Act), and guidance and counseling (Title II, ESEA). Part C, Innovation and Support Services, consolidated the innovation program (Title III, ESEA), drop-out prevention (Sec. 807, Title VIII, ESEA) and programs to strengthen State departments of education (Title V, ESEA).

In 1976 Congress consolidated all but four of the categorical programs mandated by the Vocational Education Act. The Vocational Education Consolidation Act of 1976 consolidated State program authority into two basic grants for program improvement and support. The 1974 and 1976 consolidations, however, represented a relatively small percentage of the funds that the Federal Government spends on education.

During the late 1970's there were several bills introduced in Congress aimed at consolidating Federal education programs. Most notable was the Bellmon-Domenici Reorganization and Consolidation Demonstration Project which was the subject of numerous Congressional hearings. Not until the Reagan Administration's 1982 budget proposal, however, did block grants become a politically viable strategy of Federal aid.

In March 1981, as part of its Program for Economic Recovery, the Reagan Administration proposed consolidating all or part of 83 categorical programs into six human service block grants, collectively totalling $ 11 billion. If passed as proposed, the percentage of aid distributed under block grants would have increased from 16.6 percent to 38 percent of the Federal budget. (Barfield, 1981, p.27) In addition to block grants in the areas of health services, preventive health services, social services, and energy assistance, local education service and State education service block grants were proposed. The local grant included programs for the educationally disadvantaged, handicapped children, children in schools undergoing desegregation, migrant children, and adults lacking basic educational skills. The State grant, consolidating about 30 programs, was designed to support activities aimed at helping States improve educational performance.

Congress refused to approve the State and local education block grants. During the budget process known as reconciliation, the Congress passed the Education Consolidation and Improvement Act (ECIA) of 1981, consolidating about 30 small categorical programs that were collectively known as discretionary programs. Although ECIA modified certain requirements in Title I (and renamed the centerpiece of Federal education policy Chapter I) the major education categorical programs were left untouched. It is possible that new education block grants will be proposed by the Administration, although the current strategy under the "New Federalism" proposal calls for a realignment of governmental responsibilities, rather than changes in the system of intergovernmental aid.

A strategy aimed at sorting out governmental responsibilities could, however, make greater use of general purpose grants, the third grant type. To date, the most significant example of this grant type is general revenue sharing, a "no-strings" block grant to States and localities first enacted under the Nixon Administration in 1972. Initially revenue sharing was seen by many as an alternative or substitute mechanism for Federal categorical grants since it allowed States and localities nearly unlimited discretion in the use of Federal funds.

Since its original enactment a decade ago, revenue sharing has undergone two reauthorizations, in 1976, and again in 1980. During the first reauthorization, several "strings" were added to the program in the form of non-discrimination and citizen participation requirements and new auditing and accounting provisions. But Petersen (1982), suggests that the changes were largely procedural, rather than substantive, and did not change the basic nature of the program. The four-year extension did, however, set annual

funding at a fixed level of $6.85 billion, thus insuring that the program would decrease in real value to the recipients over the extension period. The second reauthorization in 1980 eliminated the State share of program funds.

As for the future of the program, it appears that general revenue sharing will remain in place until a comprehensive revenue-turnback plan is developed by the Reagan Administration. To quote Peterson (1982), "it appears GRS will be retained -- unexpanded but unpruned -- as a sometimes constroversial, but ever-hardy perennial among the increasingly sparse varieties of Federal grants."

In education, as in the larger domain of Federal grants, there has been relatively little use of the general purpose grant. The education aid program closest to this grant type is the Impact Act program, initially authorized as PL 81-874 during the early 1950's. Funds appropriated under this program are designed to reduce fiscal inequities created by the presence of Federal tax-exempt properties and the presence of school-age children who either live on Federal property, e.g., military installations, or whose parents are Federal employees. They are distributed from the Federal Government directly to local education agencies (LEAs) according to a formula based on the number of Federally-connected students and a percentage of the LEA's share of pupil costs. Impact aid funds become part of an LEA's general operating budget and thus in effect can be considered general aid.

Past efforts by presidents of both political parties to reduce or eliminate impact aid have generally been rebuffed by Congress, since many congressional districts contain school districts that receive impact aid funds. However, like other aid programs, Impact Act has faced its share of budget reductions as part of the Reagan Administration's program of reducing government spending.

Experiences with Grants-In-Aid Mechanisms

Critical questions to ask in thinking about the possible restructuring of the intergovernmental system of grants-in-aid are: How do different types of grant operate? What are the strengths and limitations of each of the different grant structures currently in use? Since categorical programs have been the mainstay of Federal grants, there is an extensive evaluation literature on the operation of individual programs and on-going work on the interactive and cumulative effects of Federal education programs. (School Finance Project, 1980, pp. 20-21)

About 90 percent of Federal elementary and secondary school aid is distributed through categorical programs as compared to 75 percent for the Federal grant system as a whole. Over the past several years, the problems with the system of categorical grants in education and other domestic policy areas have been well articulated by policymakers and researchers. These criticisms have at least two dimensions: (1) individual program operation and administration; and (2) the presence of multiple programs in the same policy area, each with its own particular purposes and sets of requirements. In the first dimension, it is argued that the narrowness of permissible activities limits State and local ability to meet their own needs and solve their own problems, and imposes unnecessary administrative burdens on government agencies. Moreover, the compliance orientation of categorical programs creates an adverserial relationship between Federal and State and local governments, increasing the level of intergovernmental tension. Related to the second dimension, the presence of multiple programs results in a cumulative effect which exceeds the individual impact of each program, further complicating problems of administration and service delivery.

Critics claim that multiple programs fragment the provision of services, result in overlaps and gaps in services, and hinders the coordination and integration of diverse programmatic activities. Further, since each categorical program has its own set of regulations and requirements, multiple programs result in duplication in planning, data collection, auditing, and program evaluation. It is often argued that the cost and time involved in administering Federal programs exceeds the amount of Federal funds received and takes time away from instructionally related activities.

Block grants have been proposed as a mechanism for maintaining Federal program purposes. In education, for example, advocates believe that block grants would allow the Federal commitment to serving special needs students to be retained while eliminating the problems associated with categorical grants. The arguments in support of block grants are essentially the following:

Efficient delivery of services -- Block grants would reduce the coordination problems stemming from students being eligible for multiple Federal programs. The absence of narrow program categories would enable local school districts and local governments to adopt an integrated approach to service delivery, It would not limit services to an individual problem area (e.g. separating a Title I component of the student from his or her bilingual section).

State and local discretion -- Block grants would provide State and local officials with greater responsibility for planning and delivering educational services and setting program priorities, enabling them to determine the types of activities best suited to local needs within the

broad functional purposes for which the block grant was intended. Federal oversight would center on reviewing State plans and the relationship between the statutory objectives and program activities.

Paperwork and administrative requirements -- Reduced Federal oversight would result in fewer Federally imposed accountability requirements. State and local officials would no longer needs to be concerned with maintaining audit trails to demonstrate compliance.

There is a body of literature that his extensively explored the differences between categorical and block grants, and their potential strengths and limitations as tools of Federal policy. (ACIR, 1977; Wolman and James, 1981) Wolman (1981) summarizes some of the more important differences of the impacts between categorical and block grants. Based on a review of the experience with the Community Development Block Grant, the Comprehensive Employment and Training Act, the Partnership for Health Act, the Safe Streets Act, and Title XX of the Social Security Act, Wolman reaches the following conclusions:

> Categorical grants are more stimulative than block grants within a functional area. Shifting from categorical to block grants will result in lower public spending by the recipient government.
>
> In jurisdictions which receive large amounts of categorical funding, the shift to block grants will result in less benefits to the poor.
>
> The shift from categorical to block grants produces a "spreading" effect. Activities targeted on small groups of people suffer reductions at the expense of activities affecting a much broader, diverse clientele.
>
> Block grants lead to a decentralization of decisionmaking, allowing greater recipient discretion in the use of funds and reduce Federal influence over how they are spent.

In the initial phases, transformation from categorical to block grants led to increased funding, largely because of "hold harmless" provisions. As hold harmless levels phase out or are eroded by inflation, block grant appropriations are likely to decline more rapidly than funding for categorical programs.

Designation of general units of government as the formal recipient of block grants and the decentralization of decisionmaking authority resulted in an increase in the role of elected officials.

There has been an intensification of political conflict at the local level and the "spreading" of funds to a wider range of recipients under block grants than under categorical programs.

Block grants moved the locus of authority away from special authorities and away from the Federal Government to State institutions and to general purpose governments.

For grants involving large sums of money, chief executives and their staffs dominated decisionmaking under the block grants but specialists continued to dominate under smaller block grants.

Block grants changed the influence of groups in the decisionmaking process, resulting in less influence for the poor and minorities than under categorical programs.

Block grant politics at the State and local levels resulted in a loss of benefits to recipients of categorical programs. Loser groups turned to the Federal level to recapture their share of benefits, thus resulting in new programs, "earmarking" of funds, and recategorization.

The evidence regarding reduced red tape, better planning and coordination, and more rational budgeting under block, as opposed to categorical grants is unclear. Block grants have created and encouraged the creation of new State and local institutions to prepare plans and implement the grant. In budgeting, there is less skew on local priorities than with categorical grants.

It is evident from these conclusions that in selecting a categorical or block grant, there are tradeoffs between different policy objectives. By their very nature, categorical grants are associated with certain advantages: concentration of resources on specific problem areas defined as national concerns, higher levels of fiscal and programmatic accountability, and stimulation of State and local activities and spending on national priorities.

On the negative side are greater levels of administrative burden and accountability-oriented paperwork, loss of State and local autonomy, inflexibility in adapting categorical funding to local conditions and needs, and less coordination in the delivery of services.

Block grants, in contrast, share few disadvantages with categorical programs, but present their own problems, including dispersion of program funds over wider constituencies, less concentration of programmatic activity on national priorities, and reduced accountability in the use of Federal funds.

General purpose grants are at the opposite end of the continuum from categorical grants in terms of recipient discretion. While categorical grants must be used for specific program purposes, and funds allocated through block grants must be used within a broad functional area, funds allocated through general purpose grants may be used for virtually any government function. Many of the perceived benefits of general purpose grants are identical to those associated with block grants. A perceived negative of general purpose grants, however, is that funds allocated through this grant type are usually treated as general revenue by recipient governments and are not necessarily used for national objectives.

Framework for Restructuring Federal Grants

The preceding discussion has focused on the operation of different types of grant mechanisms at the broadest level of generality, i.e., categorical, block, and general purpose grant. The specific types of control mechanisms which may be present or absent from different grant types and which influence the extent of grantor and recipient discretion has not been considered.

Although it is generally expected that categorical aid will contain more "strings" and restrict more elements of program activity, finance, and administration, this is not always the case. The affects of categorical, block, and general purpose grants can be altered substantially be the addition or ommission of various control mechanisms. For example, when Title I of the Elementary and Secondary Education Act (ESEA) was initiated in 1965 it contained few of the fiscal controls that are present today. In retrospect, the original Title I was very close to a block grant. Similarly, there is also a great deal of variability in the design of block grants. They may be subject to different types of controls from higher levels of government and a "strict" block grant may be more regulated than a "loose" categorical. None of the five block grants in effect prior to the 1981 budget reconciliation process were "pure" block grants and all varied in their design characteristics.

The degree of the tradeoffs in choosing of the three types of Federal grants are more closely related to the control mechanisms used in the individual grant programs than whether the grant is classified categorical or block.

It appears that discussions about restructuring Federal grants should concentrate on the design characteristics of the grants and how the different permutations of controls may ensure that various government objectives are met. The selection or mix of controls reflects decisions by the Federal Government about the tradeoffs it is willing to make in terms of accountability and flexibility; equity and efficiency; and centralization and local control.

On the following pages is an array of control mechanisms which are options for restructuring the Federal grant-in-aid system both in education, and more generally. Two broad categories of controls are presented and classified for discussion purposes as Fiscal and Programmatic. Within each of these categories are policy instruments whose adoption or ommission will influence the extent of grantor and recipient discretion.

In the fiscal domain, there are three categories of control instruments: level of funds controls, distribution of funds controls, and process controls. The programmatic domain contains two categories of control instruments: service standard controls, and process controls. The control classifications for the two domains are defined as follows:

I. Fiscal Controls

A. Level of Funds

These instruments serve as fiscal accounting controls involving constraints on the uses of Federal funds and are more commonly known as "strings" on Federal financial assistance. They are used to ensure that recipients don't reduce their own revenues appropriated for Federally intended beneficiaries or services. Recipients must

be capable of proving that Federal funds were used only for intended beneficiaries or services.

1. Maintenance of effort
2. Comparability
3. Supplement, not supplant
4. Matching
5. Excess costs
6. No comingling of funds
7. Minimum funding

B. Distribution of Funds

This category contains control instruments designed to target funds on specifically defined beneficiaries or services. As with the previous category of fiscal controls, recipients must be able to demonstrate that Federal funds were only spent on Federally intended beneficiaries and services.

1. Formulas
2. Criteria for project approval
3. Caps/maximum entitlements

C. Process

This category of controls may be used in either the fiscal or programmatic domain, focusing on who participates in resource and program decisions. Recipients need not account for the use of funds or the delivery of services, but must follow procedures that increase the liklihood of high quality services being received by the intended beneficiaries.

1. Advisory boards
2. Stakeholder groups
3. Fiscal audits
4. Recordkeeping
5. Reporting
6. Decision review
7. Complaint resolution

II. Programmatic Controls

A. Service Standards

Although the Federal Government may not become involved in daily program operations, this set of controls influences program design including program planning and operation by specifying types and levels of educational resources or services to be provided.

1. Authorized activities
2. Prohibited activities
3. Required activities
4. Service types
5. Service levels
6. Size standards

B. Process

As noted earlier, this category of controls may be used in either the fiscal or programmatic domain focusing on who participates in decisions and the structure and operation of the decisionmaking process. Within the programmatic area, process controls may be further subdivided into two areas: planning and program operations.

1. Planning
   a. Applications
   b. Advisory board

c. Stakeholder involvement

d. Needs assessment

2. Program Operations

a. Advisory board

b. Stakeholder involvement

c. Recordkeeping

d. Reporting

e. Decision review

f. Complaint resolution

g. Evaluations

Obviously there are multiple permutations in control mechanisms. Categorical grants, for example, could contain various fiscal controls alone, various programmatic controls alone, or a combination of both. In the fiscal domain, controls could focus on level of funds, distribution of funds, process, or combinations of the three categories. Similarly, in the programmatic domain, controls could focus on service standards or process, exclusively, or a comination of the two. The same type of control permutations are available for block grants, although it would be expected that the scope of permissable activities would be wider than under categorical grants.

It seems unlikely that programmatic controls would be used for general purpose grants, since by their definition, this type of grant is open-ended in purpose. Certain types of fiscal controls, however, would be possible. One example would be supplementation requirements that are designed to ensure the overall additivity of the grant.

Summary

The framework presented in the preceding section provides a preliminary structure for sorting out the various combinations of control mechanisms available to the Federal Government in redesigning grants and also seems to indicate that the current debate on restructuring Federal grants is misdirected for two reasons. First, the debate generally focuses on categorical, block, and general purpose grants, which is the wrong level of generality. The focus should instead be on the control mechanisms which shape the influence of the these grant types.

Second, the debate is proceeding without a consensus on the objectives which the Federal Government hopes to fulfill with its grants. Before the grant system is altered policymakers need to answer a number of questions. At the most fundamental level, policymakers must decide whether the Federal pruposes which contributed to the development of the existing grant system remain valid. If the answer is positive, it must then be determined if the Federal Government should continue to finance and direct these activities or whether at least some of the responsibility for the fiscal and/or programmatic decisions should be given to State and possibly local governments. A possible scenario would be the continued Federal funding of program while devolving programmatic responsibility (planning, design, and operations) to State and local governments.

Selecting the fiscal and programmatic control mechanisms, which are so essential to determining the affects of Federal grants, is a strategic as well as political decision. It involves choices about the level of government where decisionmaking should occur, who should participate in the

process, and who the beneficiaries of the government financed services will be. Moreover, it involves tradeoffs between accountability and flexibility; between equity and efficiency; and between centralization and local control.

Clearly the sorting out of grant structures and control mechanisms is a complex undertaking and this paper does not propose to have all or even most of the solutions. What it suggests instead is a set of questions that should be asked as part of the sorting out process. In the programmatic and fiscal domains of regulatory activity, it is possible to identify a set of controls and examine their effects. Having done so, it should then be possible to suggest which should be maintained, modified or eliminated, depending upon their intended and unitended effects and relationship with other control mechanisms.

Some of the questions which a sorting out process might ask are:

1. What are the purposes of the individual control mechanisms?
2. How do they operate?
3. What are their intended and unintended consequences?
4. Do they accomplish their intended purpose?
5. How are individual control mechanismss viewed in relation to others designed to accomplish similar objectives?
6. What level of government has responsibility for this control mechanism?
7. Can the purpose which this control mechanism is supposed to ensure be more efficiently met (1) with other control mechanisms or (2) in combination with other mechanisms?
8. Can responsibility for the control mechanisms be devolved to other levels of government?

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